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## Dominican Republic

### Product Brief

## The Market for Natural, Organic, and Health Food Products

### 2007

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**Report Highlights:**

The growing economy in the Dominican Republic offers a good albeit niche market for U.S. natural, organic, and health food products. With industry estimates at 30% growth over the next few years, and the March 1 implementation of the DR-CAFTA agreement opportunities should expand in this market. Major supermarkets and specialty stores are key buyers in this sector. AgOffice estimates that the U.S. market share is about 70% with total demand reaching \$12 million by the end of 2007. Competition is mainly from Europe (processed snacks) and China (drinks). Domestic production is export oriented and mostly fresh production.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Trade Report  
Santo Domingo [DR1]  
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**TABLE OF CONTENTS**

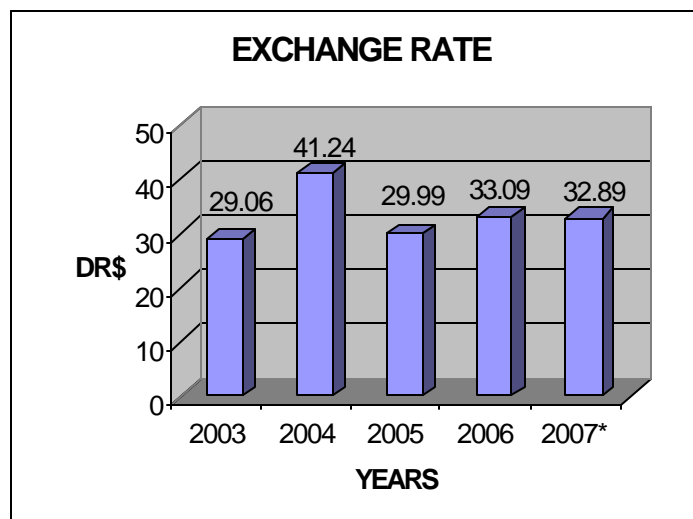
	<b>Page</b>
<b>I. ECONOMIC AND MARKET OVERVIEW.....</b>	<b>3</b>
<b>1.1. Current Economic Situation.....</b>	<b>3</b>
<b>1.2. Market Overview.....</b>	<b>4</b>
<b>II. MARKET SECTOR OPPORTUNITIES AND THREATS .....</b>	<b>6</b>
<b>2.1. The Market for Imported Products.....</b>	<b>6</b>
<b>2.2. Entry Strategy.....</b>	<b>6</b>
<b>2.3. Market Size, Structure, and Trends.....</b>	<b>6</b>
<b>2.4. Competition.....</b>	<b>8</b>
<b>2.4.1 Local Production and Supply.....</b>	<b>8</b>
<b>2.4.2 Foreign Competition.....</b>	<b>10</b>
<b>III. COSTS AND PRICES .....</b>	<b>10</b>
<b>IV. MARKET ACCESS.....</b>	<b>10</b>
<b>V. BEST PROSPECTS.....</b>	<b>11</b>
<b>VI. KEY CONTACTS AND FURTHER INFORMATION.....</b>	<b>12</b>

## I. ECONOMIC AND MARKET OVERVIEW

### 1.1. Current Economic Situation

The Dominican Republic had one of the fastest growing economies in the world in the 1990s. The country owed much of its success to the adoption of sound macroeconomic policies and greater opening to foreign investment. However, the situation changed when the country faced one of the worst financial crises in 2003. At that time, the exchange rate fell to an unprecedented low. Since late 2004, it has traded at an overvalued rate on a purchasing power parity basis.

The Economist Intelligence Unit (EIU) showed that inflation dropped in 2006 to 10.38%, down from 51.46% in 2005. The forecast for the inflation rate is to remain below 6.0% for 2007. After a strong rebound in 2005-06, GDP growth will slow, averaging about 5.5% annually in 2007-08.

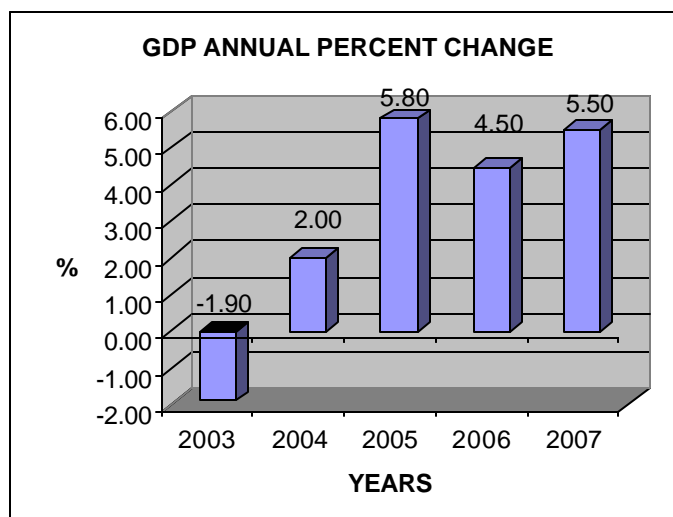


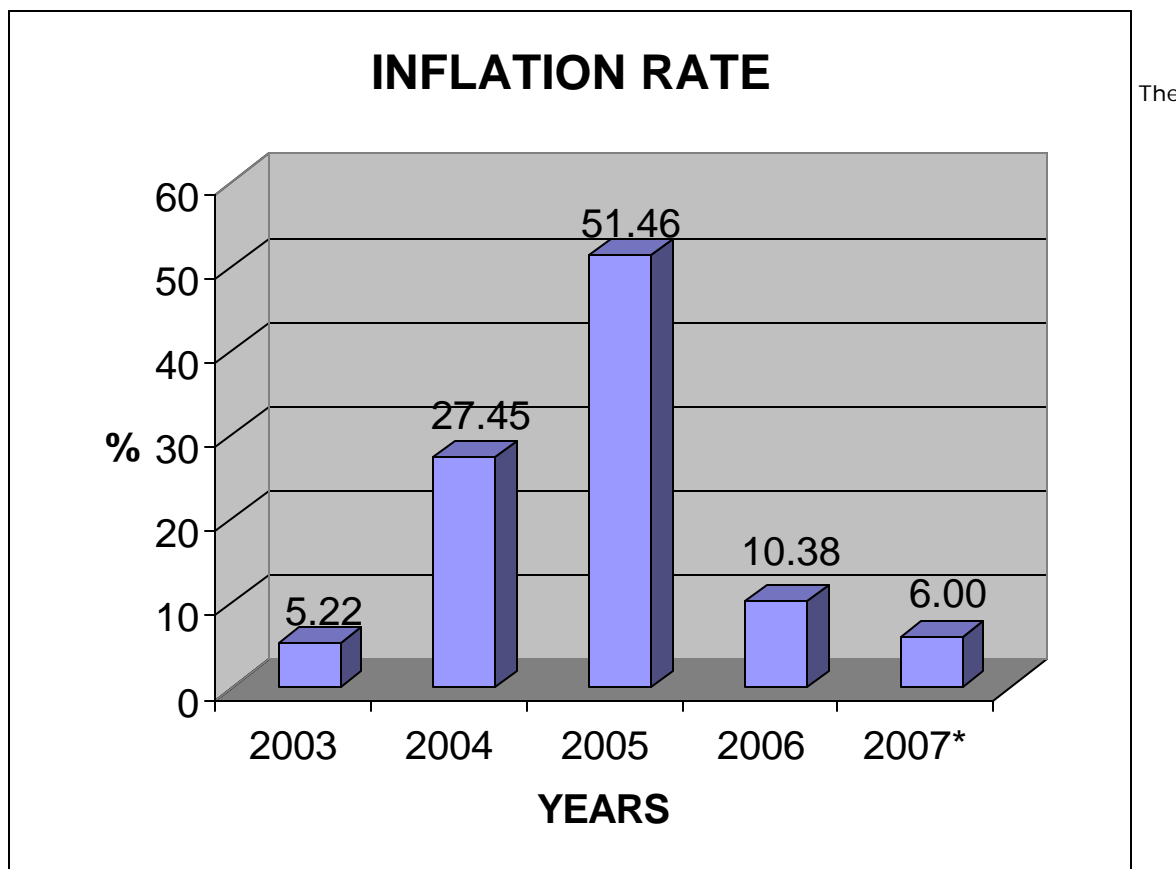
The EIU also expects current President Fernandez to remain in power after the coming May 16<sup>th</sup> elections in 2008. If that is the case, he will provide policy continuity and economic stability to the Dominican economy.

Source: Central Bank of the Dominican Republic.  
\* Average from January to May, 2007

The IMF standby agreement guides economic policy in the Dominican Republic. This agreement will expire at the end of January 2008. It prioritizes fiscal consolidation, strengthening the financial sector, improving the health of the energy sector, and improving governance.

The free trade agreement, DR-CAFTA, was implemented last March, and it is expected to accelerate economic growth. However, the agreement includes a Tariff Rate Quota (TRQ) regime for products that had been highly protected through a system of import permits and domestic purchasing agreements. The TRQs range from five to twenty years. There are also a number of other sensitive products that will be protected by a long period of tariff reductions and/or by having special agricultural safeguards. Because of this protection, the agreement is expected to have a greater impact in the mid and long run.





Source: The Economist Intelligence Unit.

\* The Economist Intelligence Unit's Estimates

## 1.2. Market Overview

Although the market for imported natural, organic, and health food products in the Dominican Republic is still small, it has grown at an estimated rate of about 30% per year over the last five years. Its outlook is very promising. As the demand for food and beverage in the Dominican Republic follows almost the same trend as the United States, what is happening in the United States on food consumption is expected to happen in the Dominican Republic sooner or later.

The development of the U.S. market for natural, organic, and health products started many years ago. The initial steps in the Dominican Republic started about twenty years ago, but it was not until about five years ago that it started to be noticeable. Currently, more people are demanding those products. Doctors are also suggesting their consumption because of the increased health problems.

Most companies importing these products are small ones. The same applies to the quantity they import too. Supermarkets are now focusing on importing these products directly. They are also eager to accept any natural or organic product offered by other importers as long as

it is coming from a well-known brand or company. Major supermarkets are also allocating space exclusively for these kinds of products. They are also investing more resources in promotion. Some supermarkets have private labels, and they are trying to include a natural, or organic product in every food category.

The following table presents some of the advantages and challenges of U.S. natural, organic, and health food products.

ADVANTAGES	CHALLENGES
<ul style="list-style-type: none"> <li>• The United States is leading the market.</li> <li>• Companies are starting to research the market, and they are finding a great potential.</li> <li>• People view U.S. products as high quality ones.</li> <li>• Most companies distributing natural, organic, and health food products represent U.S. lines, or they are U.S. franchises.</li> <li>• Dominicans living in the United States who are retiring to the Dominican Republic already know these products, and continue to demand them when they return.</li> <li>• The segment of the population that demands more of these products is mainly the segment with a higher purchasing power.</li> </ul>	<ul style="list-style-type: none"> <li>• Natural, organic, and health food products are more expensive than conventional ones.</li> <li>• To increase consumption, companies need to invest in market research and promotion strategies.</li> <li>• The increase in market knowledge is also increasing competition, mainly from Spain and China.</li> <li>• Some segments of the population consider natural and organic products as non-essential ones for daily consumption.</li> <li>• The government is planning to enforce the regulation that requires that all food products have their label in Spanish. If that happens, that will affect all exports from the United States.</li> </ul>

## II. MARKET SECTOR OPPORTUNITIES AND THREATS

### 2.1. The Market for Imported Products

The market for imported natural, organic, and health food products has been steadily growing, and the expectation for continued growth over the next five to ten year's. There are many factors influencing the trend. People are becoming more health conscious, the local market has more product variety, and health problems are increasing.

The segments of the population where there is a higher demand for these products are in the medium and higher classes. These people are more health conscious and have a higher purchasing power. Some other special customers are people with terminal illnesses and patients of naturalist doctors.

Consumers looking for alternatives to local vegetables that could have high pesticide contamination are key buyers for fresh organic and natural products. The supermarkets carry a select quantity of local organic fresh produce. However, most of the processed products in small sections devoted to natural and health food products are imported. Specialty stores carry a range of products from juices to cereals to snacks. Most of these products are imported.

### 2.2. Entry Strategy

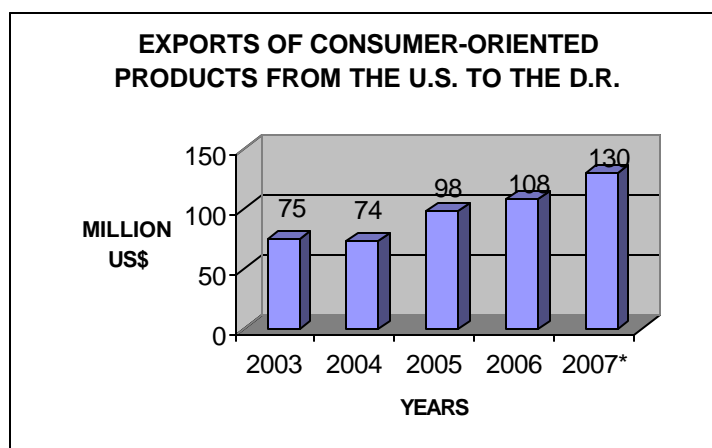
The best way to enter the Dominican market is through a local importer/distributor. These importers/distributors are familiar with the market, business practices, and related laws; and they have already established direct sales contacts. We also recommend seeking legal advice before making any formal commitment with a local importer or distributor.

Imported natural, organic, and health food products can easily enter the Dominican market. A good correlation between price and quality is a key factor to help new products enter the market. Although these products are more expensive, the high purchasing power of the segments that buy them is an advantage.

### 2.3. Market Size, Structure, and Trends

Experienced importers/distributors agree that the market for natural, organic, and health food products represents only about 4% of the demand for consumer-oriented products. However, they also consider that the market is growing fast. They estimate that that the demand has been growing at about 30% per year during the last five years.

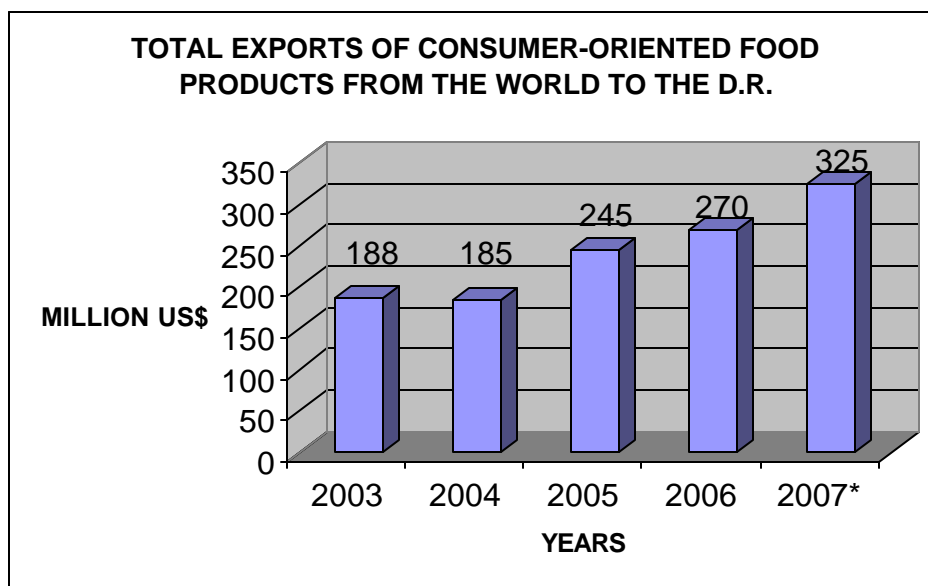
The following charts show AgOffice estimates of total consumer oriented food products and the market trend.



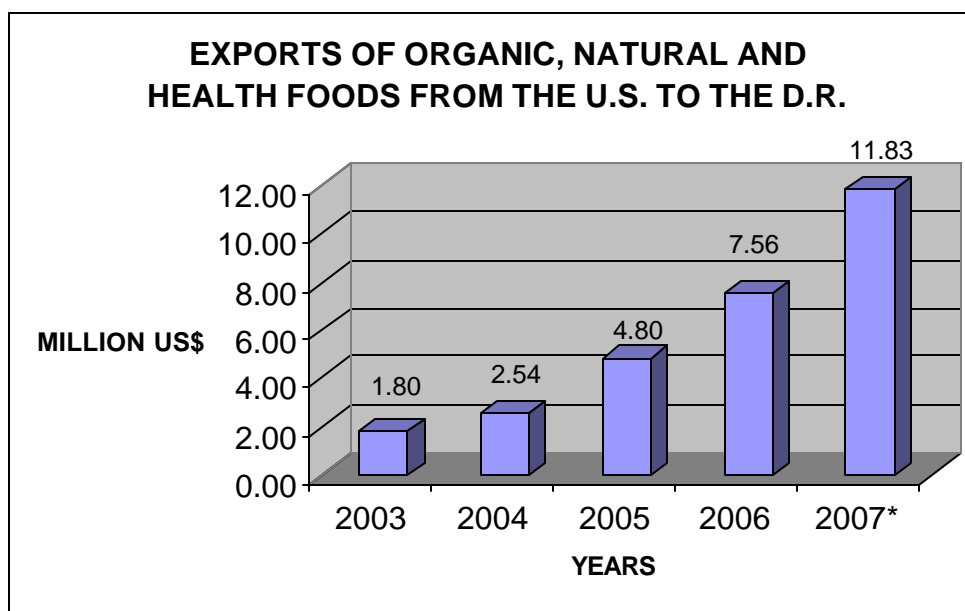
Source: FAS BICO Report, 2007

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\* Estimated based on data from January to March and a 20% growth compared to the same period in 2006.



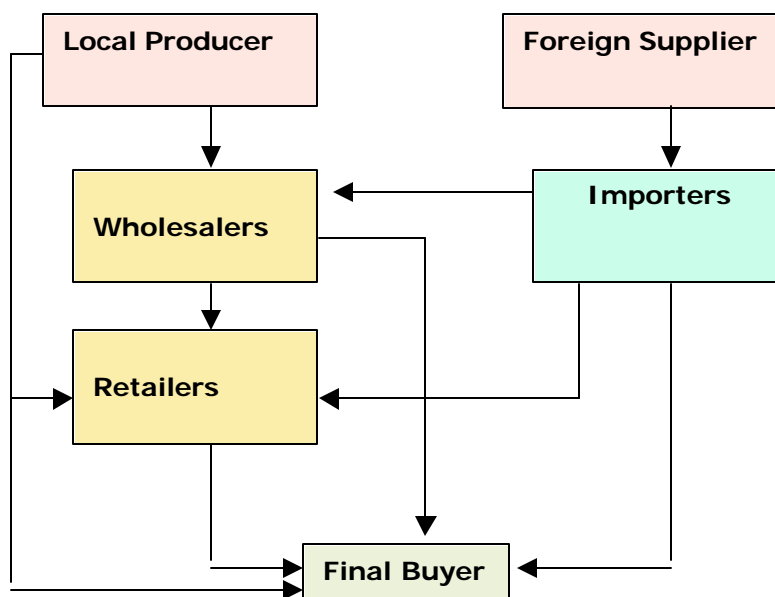
Source: U.N. Trade database and estimates based on the U.S. share and the FAS BICO Report.



Source: Estimated based the FAS BICO Report, 4% share of consumer-oriented, 30% growth for the last five years, and 70% U.S. share.

The following chart shows the main distribution channels for food products in the Dominican Republic.

#### MAIN DISTRIBUTION STRUCTURE FOR FOOD PRODUCTS IN THE DOMINICAN REPUBLIC



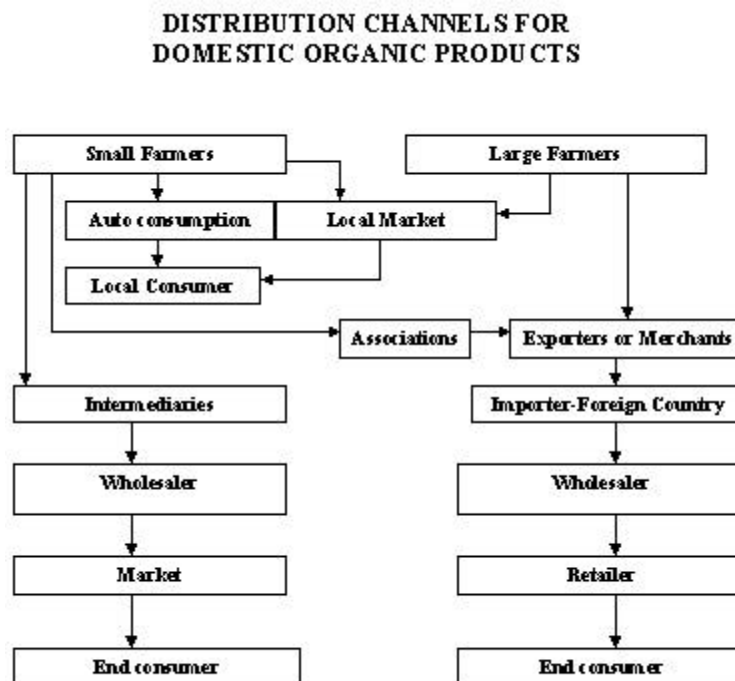
## 2.4. Competition

### 2.4.1. Local Production and Supply

Organic production in the Dominican Republic started with organic bananas about sixteen years ago in Azua, the Southwest of the country. After bananas, the country started to produce cocoa and coffee, which have traditionally been produced without any agricultural chemical. Because of that, it was easy to make the transition of these traditional products to organic ones. Currently, the quantity of organic cocoa is higher than bananas, but the value is lower. Some other main organic products produced in the Dominican Republic for the international market are mango, cane sugar, lime, and horticultural products. Some other products, such as fruit and vegetables, are produced mainly for the local market.

The international demand for organic products from the Dominican Republic is estimated to grow at a rate between 12% and 20% per year. However, only banana, cocoa, coffee, mango, lime, and coconut producers are taking advantage of this demand. Although there is a potential local demand, the market is not well developed because of the lack of working capital, organization, and infrastructure.

The following graph shows the distribution channel for domestic organic products.



Source: Mercado Ecológico, Santo Domingo, 2007

Some of the main factors affecting the commercialization of domestic organic products in the Dominican Republic are the following:

- Lack of distribution centers.
- Lack of post harvest technology.
- The presentation, appearance, quality of the product is lower than that of the traditional ones.
- The quality and consistency of the supply is not enough for the requirements of the local and the international market.
- There are not specialized intermediaries to handle organic products.
- Lack of resource to build infrastructure and for market promotion

The market for organic products in the Dominican Republic will develop, but it will do it slowly. Products for the export market have more potential in the short run. If there is support to develop the market, it could develop in about five years. Although the supply of local products will grow, it does not represent a threat for imported products.

Local production to supply the local market is starting to develop. The first initiative to organize local and regional markets started in 1996 with organic products sold in small quantities. Lack of resources is one of the main factors affecting its development. Currently, the distribution channels for those products are the following:

- Regional farmer's markets
- Direct sales to consumers
- Specialty stores for organic products.

- Market for Horticultural products and regional supermarkets.
- National supermarket chains
- Hotel and restaurants, which sell these products to special customers who demand these products.

However, the volume distributed through each channel is small.

#### **2.4.2. Foreign Competition**

About 70% of natural, organic, and health food products imported in the Dominican Republic come from the United States. There is some competition from Europe and China. However, statistics are not currently available for those countries.

### **III. COSTS AND PRICES**

Because of the additional techniques that the production process for natural, organic, and health food products requires, prices are higher. Aside from the price increase related to the higher production cost, other costs added during the distribution process are the same. The free trade agreement between the United States and the Dominican Republic will contribute to lower prices for many food products by about 20% on average. The specific decrease in price will depend on the tariff schedule for each product.

In addition to the FOB price, the other major cost factors for the final buyer in the Dominican Republic are the following:

1. Freight: Between \$2,500 and \$3,000 per container of 42,000 lbs.
2. Insurance: About 1.5% of the FOB price.
3. Customs commission: 0.4% of the CIF value.
4. Value Added Tax (ITBIS): 16% of the CIF value.
5. Margin for the importer: Between 25%-40%.
6. Margin for the retailer: 25% to 35%.

### **IV. MARKET ACCESS**

The Dominican Republic does not have a specific law or regulation for natural, organic, or health food products. The same laws that apply to traditional ones regulate them. U.S. labeling and standards used to be well accepted in the Dominican Republic. However, there is a law that requires that all labels should be in Spanish, and AgOffice expects the government to enforce it before the end of this year 2007 (Please see report DR7014). Therefore, both U.S. suppliers and Dominican importers need to be prepared for this change.

For a more detailed description about regulations and standards, please refer to report DR7014, at <http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>,

The Retail Food Sector Report DR6002, provides detailed information on the retail sector in the Dominican Republic (<http://www.fas.usda.gov/gainfiles/200603/146176990.doc>).

## V. BEST PROSPECTS

Different from other products categories, there are no specific tariff codes for natural, organic, or health food products. They fall under the same category of the conventional products to which they belong. Because of this, import data is currently not available. The following chart shows natural, organic, and health food products that have the highest potential for the Dominican market based on industry surveys.

### BEST PROSPECTS

TARIFF RATE CATEGORY 1/	DESCRIPTION	BEST PROSPECTS	BASE TARIFF RATE (PREVIOUS FOR CATEGORY A)
A	Duty free (0%) immediately.	Dried fruits (from 0804 to 0813)	(20)
		Cereals (2104.10.20)	(20)
		Peanut Butter (2008.11.90)	(20)
		Power Bars - Protein (2106.10.00)	(8)
		Salad dressing (2103.20.90)	20
D	It means 6.66% annual reduction, duty free by January 1, 2020 (reduction over 15 years).	Candy Bars - with Cocoa (1806.90.10)	20
		Cookies and crackers (1905.31)	20
		Soup/Broth (2104.10.20)	20
		Sweeteners and sugar substitute (1701.99.00)	85
		Sauces (2103.90.20)	20

1/ For more details on DR-CAFTA, please go to [http://www.ustr.gov/Trade\\_Agreements/Bilateral/CAFTA/CAFTA-DR\\_Final\\_Texts/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/CAFTA-DR_Final_Texts/Section_Index.html). For an excellent overview of the agreement please see [http://www.usemb.gov.do/CAFTA-DR\\_The\\_Day\\_After.pdf](http://www.usemb.gov.do/CAFTA-DR_The_Day_After.pdf). The guide also describes the tariff rate quota systems and defines the tariff rate categories. Please note that this is the second year of the agreement.

In the above table, for instance, currently, products such as dried fruits should be eligible for duty free entry according to the DR-CAFTA agreement.

The supplier and importer should inquire about the specific code under which the Dominican Customs' Department (DGA) will consider the product previous to shipping it.

**VI. KEY CONTACTS AND FURTHER INFORMATION****FOREIGN AGRICULTURAL SERVICE**

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